

A process for Incorporation of Exchange Traded Portfolios (a.k.a. Exchange Traded Funds) Into Life Insurance or Annuity Policies with an Optional Principal Protection

Feature

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Title of the Invention

A process for Incorporation of Exchange Traded Portfolios (a.k.a. Exchange Traded Funds) Into Life Insurance or Annuity Policies with an Optional Principal Protection Feature

Cross Reference to Related Applications

Not Applicable

Statement Regarding Federally Sponsored Research or Development

Not Applicable

Description of Attached Appendix

Not Applicable

Background of the Invention

This invention relates generally to the field of insurance products of Life and Annuity Policies and more specifically to a process for incorporation of Exchange Traded Portfolios (a.k.a. Exchange Traded Funds) into Life Insurance or Annuities with an Optional Principal Protection Feature.

This invention generally relates to the field of investment in Exchange Traded Portfolios/Funds which would be used inside of life insurance or annuity policies instead of, or in addition to, the traditional mutual funds.

In the mid-90's the American Stock Exchange in order to compete with the New York Stock Exchange invented the Exchange Traded Fund (ETF). These are index funds that are traded like stocks as opposed to mutual funds.

The Exchange Traded Funds are similar to Index Mutual Funds in that they consist of all the stocks that make up the index, such as an S & P 500 Index, and they include a management fee; however, they are sold not as mutual funds, but as single stocks mostly on the American Stock Exchange. (Due to their success, some ETF's have begun to trade on other exchanges, such as the New York Stock Exchange.)

Since their invention in the mid-90's ETF's have become very successful as their volume on the exchanges have increased dramatically. In addition to the advent of the ETF's trading as stocks, various derivative products have in accordance appeared to augment their versatility. Examples of these derivatives are: options on the ETF's, Futures Contracts on the ETF's, and options on the Futures.

These options on the ETF stocks along with the options on the Futures Contracts if purchased in conjunction with the ETF themselves can provide a hedge that can protect the value of the ETF.

As insurance companies use mutual funds to provide life insurance (known as variable life insurance) and annuities (also known as variable annuities) with the investment vehicle by which the value of the policies can grow (or depreciate as there is risk involved), the ETF's could be used as a substitute for the mutual funds creating

additional benefits and efficiencies yet still maintaining the same diversity required by the insurance industry and its regulators.

Brief Summary of the Invention

The primary object of the invention is to make the insurance product, overall, through the use of ETF's, more efficient than mutual funds.

Another object of the invention is to increase liquidity.

Another object of the invention is to provide a market throughout the day on a major exchange in the same way as stocks are traded.

A further object of the invention is to allow the investment vehicle the potential to be shorted; that is, to allow the investment the potential to appreciate even in a down market.

Yet, another object of the invention is to lower expense ratios.

Still yet, another object of the invention is to eliminate short-term redemption fees.

Another object of the invention is to make put options available that would enable the insurer to offer a put protection feature that hedges the principal.

Another object of the invention is to allow for immediate diversification.

Other objects and advantages of the present invention will become apparent from the following descriptions, taken in connection with the accompanying drawing, wherein, by way of illustration and example, an embodiment of the present invention is disclosed.

In accordance with a preferred embodiment of the invention, there is disclosed a

process for incorporation of Exchange Traded Portfolios (a.k.a. Exchange Traded Funds) into Life Insurance or Annuities with an Optional Principal Protection Feature comprising the steps of: establishing variable life insurance and /or annuity products, make available the various ETF's instead of or in addition to mutual funds, and the application of a put option protection feature.

Brief Description of the Drawings

The drawings constitute a part of this specification and include exemplary embodiments to the invention, which may be embodied in various forms. It is to be understood that in some instances various aspects of the invention may be shown exaggerated or enlarged to facilitate an understanding of the invention.

Figure 1 is a flow chart of the operations that comprise the method.